



Islam prohibits interest

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General Note

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ABSTRACT

Interest is the price paid for the use of money or credit. Islam religion teachings are very close to nature. Islam prohibits interest rate and promotes Qarz-e-hasna (Give money to the needy people without interest). Interest disturbs the economics of the society. Higher interest rates increase the cost of consumption and less saving. It also damages the confidence between the consumers and producers. Interest rates increase the unemployment in the world. Pakistan budget always showed deficit due to the payment of loans attained with the highest interest rates. The goods purchase by the loans with interest rates increased the cost of production and ultimately failed the economics.

Keywords:- Islamic economics and conventional economics, Riba, Qard, Murabahah

1. INTRODUCTION

Chapra (1985) argued that the absence of interest rate in Islamic economics, and the existence of some institutions like Zakat, minimize the speculative demand for money and make total demand for money in Islamic economics more stable. Irving Fisher (1974) says "we may define the rate of interest as the percent of premium paid on money at one date in terms of money to be had one year later." The interest rate has been a more and more complex and important phenomenon since long. For this reason, interest rate entered into all branches of economics (conventional and Islamic economics) and related studies. The interest rate is the profit over time due to financial instruments. According to conventional economics interest means the advantage or benefit of a person or group. An interest rate is the amount received through amount lent from borrower. Interest rate is permissible earning in conventional economics because conventional economics said, "The creditors are selfish in attitude and the sovereignty. For example: If you were given 100\$ and you return 120\$ after a year, the interest rate you return was 20% a year. In Pakistan was last registered 5.75 percent interest rate 7/30/2016 (The state bank of Pakistan).

Riba (interest) in Islamic Economics

First of all us clear that with the help of some prove, reason and evidence Riba (interest) is prohibited in Islam. Aristotle not an economist but said "interest is the price of time and time belongs to God" (Ismail 2009).

What is Riba (Interest)?

The literal meaning of interest or Al-Riba in the Arabic language is exceeding or increase. In other words due to Islamic economics we called effortless profit. The Prophet (SAW) has foretold us of a time when the spread in riba would be very badly that would be very extremely difficult for the Muslims of the whole world to avoid it. This condition calls for Muslims to be extra careful before deciding on what earning or profit method to use in any type of personal or business transaction. Hazrat Shah Waliullah Dehlvi says that

"Riba is a loan with the condition that the borrower will return to the lender more than and better than the Quantity borrowed."

Keeping in view the Ahadith of Holy Prophet Muhammad (PBUH), the Muslims jurists have classified of Riba into two i.e. Riba al-Nasi'ah and Riba al-Fadl.

Riba al-Nasi'ah

The term nasi'ah has different meaning i.e. postpone, defer or wait and it refers to time that is permission to debtors repay the debt in return for the same (or fixed) addition. Hence Riba al-Nasi'ah is an interest on loan or debt. Quran says using in this type of Riba "God has forbidden interest" (2:275). The Holy Prophet (Peace Be upon him) said that type of Riba: "There is no Riba in nasi'ah." In Islam any condition which earning without any effort is not permitted.

Riba al-Fadl

Riba al-Fadl refers to hand-to-hand purchases and sale of commodities. In which involved cash payment in one hand and immediate delivery of the commodity or goods on the other. To avoid in this type of Riba, people have to exchange commodities equally and purify to dishonest and injustice. For example: gold for gold and silver for silver. In conventional economics the creditors are selfish in attitude but in Islam no permissible selfness.

Justice can be rendered only if the two scales of the same value of goods. This statement explained in Hadith by the Holy prophet peace be upon him, in a most benefiting manner when he referred to six important commodities and emphasizes that if one scale has more than one commodities, the other scale also have the equal commodity, "like for like and same for same." For example creditor one bag rice (4500 rupees) delivers to debtor so debtors against four bag cotton return because one bag has 1125 rupees. Hence this example, "like for like and equal for equal."

Murabahah

Murabahah just is the Islamic studies or in other words equal profit where no anyone is damaged during any type of business transaction. We say that in other words this is the best alternative of monetary system. In which a client wants to purchase any type of equipment or items so request the Islamic bank to buying the goods and sell them with cost plus profit. Hence we say that Murabahah is a cost-plus contract. In which we can't stress any party purchase my items and we gain just fixed profit.

Riba occurs when Qard occurs?

Qard define in Islamic laws is "Transferring the ownership of an asset to another one with the grantee that he/she would pay it back" (Iravani, 1999). So prove that concept Riba occurs when Qard occurs. In reality, Qard and sales has a two different concept. In which Sales transfer of asset just with help of price and no profit gain it while Qard is the transfer of asset with the help of grantee to pay it back. Due to Islam Qard is another shape of Riba.

Reason (Interest) of prohibition Riba

First of all we start to study Riba issue according to Islam. In which Quran seven verses about Riba. In surah baqqarah In Surah Baqqarah as Quran prohibited Interest

"Those who devour interest shall not stand on the day of judgement, but like the standing of one whom the evil spirit has by touching made mad. This is because they said "The trade too is like interest" and Allah made trade lawful and made interest unlawful. So he, who received admonition from his Lord and refrained, then whatever he took before is lawful to him, and his affair is with Allah. And now whoever shall commit such. Fault, they are men of hell; they will live therein for longer period (forever). Allah destroys riba and gives increase for deeds of charity, for Allah loves not any ungrateful/non-believing sinner. [2:275-276]

Before we written According to that verses [2:275-276] we said "The Holy Quran being the final edition and authentic source of guidance in which provide us necessary information for better life in the Universe". And concept the sovereignty of Allah tells us "All that exist in the Universe belongs to Allah Almighty (SWT-Subhanahu wa Ta'ala) because He is creator of everything". So that reason we follow this verses of "Surah Baqqarah" [2:275-276] and fully understand the prohibition of Riba. That verses tell us "Those engaged in riba are consumed by greed leaving them 'intoxicated' thereby which will mirror on the Day of Judgment". (We have the guidance of Allah (SWT) through sending prophet to succeed in this life and hereafter). And incorrect similitude was not corrected so we can't permissible on base (The trade is like too interest) of Riba. Prohibition was not retrospective because he was past but before befalls his verses on the Holy Prophet Peace be upon him. Quran says in Surah Baqqarah

"O you who believe! Fear Allah, and give up what remains of your demand for riba, if you are indeed believers. If you do it not, take notice of war from Allah and his Messenger. But if you repent you shall have your capital sums. Deal not unjustly, and you shall not be dealt with unjustly". [2:278-279]

In that verses expressed to prohibition of riba, oppression and injustice. The poor debtors to pay much more than they had debt would disobedient cause the wealth transfer from poor to rich in the society. Again Quran said in Surah Al-Imran

"O you who believe! Devour not usury, doubled and multiplied; but fear Allah that you may prosper. [3:130]

According to Ibn Hajar –revealed in 2AH as preceding and succeeding verses are about the battle of Uhud When Muslims usurious loans to equip their armies in response to the action of pagans. According this verses explicit prohibition of compound interest. Again said Quran about in Surah Al-Nisa

"And because they took usury whereas they were prohibited from it, and they consumed people's wealth unjustly, and those of them who became infidels, we have prepared a painful torment for them. [4:161]

In this verse Quran tells about Riba prohibition is stated otherwise prepared painful torment.

We have last evidence according to Quran in Surah Al-rum

"And that which to give in riba for increase through the property of [other] people, will have no increase with Allah. But that which you give in charity seeking the countenance of Allah, it is these who will get a recompense multiplied. [30:39]

According to the majority of exegetical, prefer the gift on the day of judgement because that gift is better for us. In reality, Islam prohibition of riba, wants Muslims to help their Muslim brothers just for the sake of Allah (Qard Al-Hassan).

Prohibition of interest by Bible

"Do not change your brother interest, whether on money or food or anything else that may earn interest." (Deuteronomy 23:19)

"Do not take interest of any kind from him, but fear your God, so that your countryman may continue to live among you." (Leviticus 25:36)

"If you lend money tone of my people among you who is needy, do not be like a moneylender; charge him no interest." (Exodus 22:25)

Prohibition of interest by Hadith

1. My father bought a slave who practiced the profession of cupping, (My father broke the servant instruments of cupping). I asked my father why he had done so. He replied, "The Prophet forbade the acceptance of the price or dog or blood, and

also forbade the profession of tattooing, or getting tattooed and receiving or giving Riba (Usury), and cursed the picture makers."

Sahih Bukhari, Volume 3, No. 299; Narrated 'Aun Bin Abu Juhaifah R.A.

2. He speaks of in a dream related to the Prophet (SAW) that there is a river of blood and a man was in it, and another man was standing at its bank with stones in front of him, facing the man standing in the river. Whenever the man in the river wanted to come out, the other one threw a stone in his mouth and caused him to retreat back into his original position. The Prophet was told that these people in this river of blood were people who dealt in Riba (Usury).

Hadith - Sahih Bukhari, 2.468, Narrated Samura bin Jundab, R.A.

3. Hazrat Abu Hurairah R.A. reported that the Prophet said: A time will certainly come over the people when none will remain who will not devour usury. If he does not devour it, its vapour will overtake him.

Ahmed, Abu Dawud, Nisai, Ibn Majah

4. Hazrat Jabir R.A. has reported that the Messenger of Allah cursed the devourer of usury, its prayer, its scribe and its two witnesses. He also said that they were equal (in sin).

(Mishkat-ul-Masabih)

5. Abu Hurairah reports that the prophet said:

"Refrains from seven deadly things: The companions asked him: What are these? He said:

To associate partners with Allah, sorcery; to kill a soul without valid reason in the eyes of Allah; to devour interest; to devour the property of the orphan; to feel from the battlefield; and to falsely implicate chaste, innocent, believing woman of vulgarity."

Bukhari, Muslim, Abu Dawud, Nasai

Interest concentrates wealth in the hands of a small minority

Because interest is a low-risk way to increase wealth if you already have wealth, this functions to concentrate wealth into the hands of a minority, which has potentially socially destructive effects (leading to phenomena like the 99% movement). Scholars have suggested that several mechanisms in Islam serve to limit concentration of wealth (Zakat as a wealth tax; inheritance must be subdivided between all children etc.)

Interest introduces instability into the economic system

If people are lending money to others, but it is untied to a physical resource and based on the expectation that not everyone will try to get back their liquid assets at the same time (the so called liquidity ratio which allows banks to not have to hold all of the money they have lent in liquid form) this can introduce financial instability into the system (as we have seen in the last few years with Freddie Mae and Fannie Mac); (Devy et al. 2016).

Interest can cause overconsumption that later can be life-destroying

If people are given the option of borrowing against future earnings without knowing what those future earnings are, people may over consume. A huge number of people's lives have been destroyed by, for example, credit card debt. Many suicides, for example, have been related to debt.

Effect of rising interest rate

The main interest rate is announced by the Bank of England. This is called as the base rate. When the Bank of England faces many badly situation i.e. inflation would go up, then they decided to increasing in interest rates because to reduce demand and reduce the rate of economic growth.

Higher interest rates have many economic effects

- **Increase the cost of consumption and less saving**

Due to high interest rate high interest paid on credit card as well as loans are more expensive. So that reason people damage from consumption and saving. People who already have loans will have less disposable income because they spend more income on

interest rate payment. When disposable income already less due to higher interest rate and increase in the cost of borrowing consumption also less and as well as saving also fall.

- **Reduced confidence**

Due to higher interest rates consumer and producer confidence level go down. When rise in interest rate then investment discourages; that reason producer and consumer less willing to take risk in investment, producing, and purchasing. This will lead to go down in Aggregate Demand (AD).

- **Higher Unemployment**

Due to interest rate firms produce less goods (output falls) so that reason demand of workers less.

(a) Evil effects on allocation of Resources

Loans in the present banking system are advanced mainly to those who, on the strength of their wealth, can offer satisfactory collateral.

The veracity of this statement can be confirmed by the fact that according to the statistics issued by the State Bank of Pakistan in September 1999, 9269 account holders out of 2,184,417 (only 0.4243% of total account holders) have utilized Rs.438.67 billion which is 64.5% of total advances as of end December 1998.

(b) Evil effects on production

Since in an interest-based system funds are provided on the basis of strong collateral and the end-use of the funds does not constitute the main criterion for financing, it encourages people to live beyond their means. The rich people do not borrow for productive projects only, but also for conspicuous consumption.

Similarly, governments borrow money not only for genuine development programs, but also for their lavish expenditure and for projects motivated by their political ambitions rather than being based on sound economic assessment. Non-project-related borrowings, which were possible only in an interest-based system have thus helped in nothing but increasing the size of our debts to a horrible extent. According to the budget of 1998/99 in our country 46 percent of the total government spending is devoted to debt-servicing, while only 18% is allocated for development which includes education, health and infrastructure.

(c) Evil effects on distribution

We have already pointed out that when business is financed on the basis of interest, it may bring injustice either to the borrower if he suffers a loss, or to the financier if the debtor earns huge profits. Although both situations are equally possible in an interest-based system, and there are many examples where the payment of interest has brought total ruin to the small traders, yet in our present banking system, the injustice brought to the financier is more pronounced and much more disturbing to the equitable distribution of wealth.

In the context of modern capitalist system, it is the banks that advance depositors' money to the industrialists and traders. Almost all the giant business ventures are mostly financed by the banks and financial institutions. In numerous cases the funds deployed by the big entrepreneurs from their own pocket are much less than the funds borrowed by them from the common people through banks and financial institutions. If the entrepreneurs having only ten million of their own, acquire 90 million from the banks and embark on a huge profitable enterprise, it means that 90% of the projects is created by the money of the depositors while only 10% was generated by their own capital.

(d) Expansion of artificial money and inflation

Since interest-bearing loans have no specific relation with actual production, and the financier, after securing a strong collateral, normally has no concern how the funds are used by the borrower, the money supply effected through banks and financial institutions has no nexus with the goods and services actually produced on the ground. It creates a serious mismatch between the supply of money and the production of goods and services. This is obviously one of the basic factors that create or fuel inflation.

2. CONCLUSION

This review paper concluded that interest damages business nature, social relation and reduction in economics with views of Al-Quran, Al-Hadith, Bible and Islamic economics.

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